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1982

Proposed statement of position : accountant's report on a review of a financial forecast contained in filings under federal securities statutes ; Accountant's report on a review of a financial forecast contained in filings under federal securities statutes; Exposure draft (American Institute of Certified Public Accountants), 1982, Feb. 10

American Institute of Certified Public Accountants. Financial Forecasts and Projections Task Force

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EXPOSURE DRAFT

PROPOSED STATEMENT OF POSITION

ACCOUNTANT'S REPORT ON A REVIEW OF A FINANCIAL  
FORECAST CONTAINED IN FILINGS UNDER  
FEDERAL SECURITIES STATUTES

February 10, 1982

Prepared by the AICPA Financial Forecasts and Projections  
Task Force for comment from persons interested in  
financial forecasts contained in filings under  
federal securities statutes.

Comments should be received by April 15, 1982 and addressed  
to the AICPA Auditing Standards Division, File 2660S  
AICPA 1211 Avenue of the Americas, New York, NY 10036

### Summary

This proposed Statement of Position would supplement the Guide for a Review of a Financial Forecast. The proposed SOP provides guidance to the accountant when his report on a review of a financial forecast is included in a registration statement filed with the SEC under the Securities Act of 1933. The proposed SOP describes the procedures an accountant should undertake between the date of his review report and the effective date of the registration statement when the report is not required to be updated under the terms of his engagement. These procedures, which are limited to reading certain documents and making certain inquiries, provide a reasonable basis for the accountant to consent to the use of his report without constituting an update of that report.



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

February 10, 1982

Accompanying this letter is an exposure draft of a proposed Statement of Position, Accountant's Report on a Review of a Financial Forecast Contained in Filings Under Federal Securities Statutes. A summary of the proposed SOP also accompanies this letter.

Comments or suggestions on any aspect of this exposure draft will be appreciated. The consideration of responses will be helped if the comments refer to the specific paragraph numbers and include reasons for any suggestions or comments.

Responses should be sent to the AICPA Auditing Standards Division, File 2660S, in time to be received by April 15, 1982.

Written comments on the exposure draft will become part of the public record of the AICPA Auditing Standards Division and will be available for public inspection at the offices of the American Institute of Certified Public Accountants after April 30, 1982, for one year.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. K. Elliott", with a long horizontal flourish extending to the right.

Robert K. Elliott  
Chairman  
Financial Forecasts and Projections  
Task Force

A handwritten signature in dark ink, appearing to read "D. R. Carmichael", with a large, stylized initial "D" and a flourish.

D. R. Carmichael  
Vice President, Auditing

## PROPOSED STATEMENT OF POSITION

### Accountant's Report on a Review of a Financial Forecast Contained in Filings Under Federal Securities Statutes

1. In 1980, the AICPA issued the Guide for a Review of a Financial Forecast (the Guide). The Guide describes the responsibilities of an accountant who is engaged to review and report on a financial forecast. This Statement of Position provides guidance on the implementation of the Guide when the accountant's report on a review of a financial forecast is included in a registration statement filed with the Securities and Exchange Commission (SEC) under the Securities Act of 1933. Specifically, this Statement of Position describes the procedures that the accountant should undertake between the date of his review report and the effective date of the registration statement when the report is not required to be updated under the terms of his engagement.
2. The SEC has adopted a rule providing safe harbor with respect to applicable liability provisions of the federal securities laws for statements made in filings with the SEC or in financial reports to shareholders that contain or relate to financial forecasts, if certain conditions are met. Under the safe harbor provisions, a statement containing or relating to financial forecasts would be deemed not to be a fraudulent statement under the federal securities laws unless it was prepared without a reasonable basis or disclosed other than in good faith. (The SEC safe harbor rule is reprinted in Appendix C of the Guide.)

3. A registration statement speaks as of its effective date, and the statutory responsibility of an accountant whose report is included in such a registration statement may be determined in the light of the circumstances as of such date. This aspect of an independent accountant's responsibility is peculiar to registration statements filed with the SEC.
4. Unlike audited historical financial statements, forecasts, if prepared even a few weeks later, may well vary in some respects from earlier versions. Therefore, as provided in the Guide, the report on a review of a financial forecast should indicate that the accountant has no responsibility to update his report for events and circumstances occurring after the date of his report. Nevertheless, the accountant should have a reasonable basis to consent to the use of his report in the registration statement as of the effective date. Accordingly, the accountant should undertake certain procedures that, while not providing a basis to update his report, may reveal whether events occurring subsequent to the date of his report render a financial forecast materially misleading as of the effective date of the registration statement. These procedures would generally focus on events that relate to assumptions to which the forecasted results are particularly sensitive.
5. To have a reasonable basis to consent to the use of his report on the review of the financial forecast in a registration statement, the accountant should perform such procedures with respect to the period from the date of his review report up to the effective date,

or as close thereto as is reasonable and practicable in the circumstances. The accountant generally should:

- a. Read the latest available interim financial statements, operating reports, and any relevant prospective information such as budgets; consider the forecasted results in relation to the actual results achieved in the interim period; and inquire whether the accounting principles used in the preparation of such information are consistent with the principles used in preparing the forecast.
- b. Read the entire prospectus and other pertinent portions of the registration statement and consider that information in relation to the forecasted results and the summary of significant forecast assumptions.
- c. Inquire of and obtain written representations from officers and other executives responsible for matters significant to the forecast as to whether there are any events, plans, or expectations (whether or not reflected or disclosed in the registration statement) which, in the officers' or other executives' opinion, may require the forecast to be modified, or which should be disclosed, to keep the forecast from being materially misleading. These inquiries should focus on events relating to assumptions to which forecasted results are particularly sensitive.
- d. Read the available minutes of meetings of the board of directors and related committees. As to meetings for which minutes are not available, inquire about matters dealt with at such meetings.

- e. Make such additional inquiries or perform such procedures as he considers necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures.
6. A description of the additional procedures or negative assurance based on those procedures should not be included in the report on the forecast or in any document that includes the report.